



Request for City Council Committee Action from the Department of Community Planning and Economic Development

Date: July 12, 2011

To: Councilmember Lisa Goodman, Chair, Community Development Committee

Referral to: Councilmember Betsy Hodges, Chair, Ways & Means Budget Committee

Subject: Authorization to participate in foreclosure redemption process and to consent to the bankruptcy reorganization plan as a method to recover debt with the Great Neighborhoods Development Corporation.

Recommendation: Authorize staff to execute the necessary documents and participate in debt recovery action related to Great Neighborhoods! Development Corporation (formerly known as American Indian Neighborhood Development Corporation and American Indian Business Development Corporation) bankruptcy proceedings including:

1. Authorizing the Finance Officer to participate in foreclosure redemption process of Franklin Circles Shopping Center, 1201-1311 E. Franklin Avenue, and determine how to potentially recover some or all of the outstanding \$400,000 UDAG loan (#BD00000076, 1981), \$195,000 CDBG loan (#AA940045, 1994) and \$20,000 Levy loan (#BD00000022, 2003)
2. Authorizing attached Resolution and Approving a capital advance from the Common Project Reserve (01CPZ – 8900320) in an amount necessary to participate in the foreclosure redemption process of Franklin Circles Shopping Center and authorizing the Finance Officer to establish appropriations as needed.
3. Authorizing the Finance Officer to consent to Great Neighborhoods! Development Corporation Plan for Reorganization filed on June 17, 2011 with the United States Bankruptcy Court in an attempt to recover a portion of outstanding unsecured debt.

Previous Directives:

Between 1981 and 2011, the City took a number of actions to support the GNDC and GNDC-subsidary led developments of the Franklin Circles Shopping Center ("Shopping Center") at 1301-1311 East Franklin Avenue, Ancient Traders Market ("ATM") at 1113 East Franklin, and the Franklin Bakery ("Bakery") at 1401-1425 East Franklin Avenue (Exhibit A), and the Broadway Plaza at 718-800 West Broadway (Exhibit B):

1. Bakery - On May 27, 2011 the City Council authorized staff to execute the necessary documents to consent to the transfer and assumption of the Franklin Bakery Site Assembly Loan (#BD00000023) from GNDC to Franklin Bakery, LLC
2. Broadway Plaza - On November 18, 2008 the City Council authorized a \$432,000 grant to Great Neighborhoods Development Corporation for the Broadway Plaza YWCA project to assist with project costs
3. Broadway Plaza - On August 22, 2008, City Council approved the Empowerment Zone Governance Board's recommendation to provide a \$136,000 loan to support the project.

4. Broadway Plaza - On November 2, 2007, City Council approved the Empowerment Zone Governance Board's recommendation to provide a \$300,000 grant to AINDC for predevelopment costs of the space at 718-800 West Broadway.
5. Bakery - On September 16, 2003 the MCDA Board of Commissioners approved a \$350,000 CEDF/CDBG loan to American Indian Neighborhood Development Corporation for site assembly costs in the construction of the new Franklin Bakery at 1020 E. Franklin Ave.
6. Shopping Center - On June 6, 2003 the City Council authorized a loan (#BD00000022) of \$40,000 (Levy) to AINDC to pay AINDC's share of the Snyder Drug build-out at the Franklin Circles Shopping Center;
7. Shopping Center - On December 12, 2003, the City Council authorized the subordination of City mortgages to a Franklin Bank mortgage;
8. Shopping Center - On September 18, 2000, the MCDA approved a one-year forbearance of all City/MCDA loan payments (this forbearance was not utilized for the UDAG loan; the \$2500 principal payment on that loan was made in 2000);
9. Shopping Center - On November 1, 1999 the MCDA approved a loan of \$250,000 (CDBG) to provide the local match to a \$1 million Economic Development Administration (EDA) grant for rehabilitation of the Franklin Circles Shopping Center property. This loan was converted to a grant on December 28, 2001;
10. Shopping Center - On September 12, 1997, the Minneapolis City Council approved a loan of \$50,000 (CDBG) to AIBDC to renovate Franklin Business Center, Franklin Circles Shopping Center and plan for Phase III activities;
11. ATM – On October 27, 1995 the MCDA board authorized a \$298,000 (NRP) loan (#AA980006) for costs to build and operate a business incubator at 1113 East Franklin Ave.
12. Shopping Center - In 1994, the MCDA board authorized a loan (#AA940045) of \$300,000 (CDBG) to develop the Bruegger's Bagel Bakery;
13. Shopping Center - In 1993, the MCDA Board of Commissioners (MCDA) authorized a loan restructuring reducing annual UDAG loan debt service payments from \$34,765 (principal and interest) to \$2,500 (interest only) for twelve years ending in 2004, with the loan to be re-amortized in 2005 for repayment by 2014;
14. Shopping Center - In 1981, the Federal Government awarded the City of Minneapolis an Urban Development Action Grant for a loan (#BD00000076) of \$550,000 to the (then) American Indian Business Development Corporation (AIBDC) to develop the Franklin Circles Shopping Center; the loan was for 30 years at 4.75% annual simple interest.

Department Information

Prepared by: Erik Hansen, Principal Project Coordinator, 612-673-5022

Approved by:

Charles T. Lutz, Deputy Director CPED _____

Catherine A. Polasky, Director of Economic Policy and Development _____

Presenter in Committee: Erik Hansen

Financial Impact

- Improves likelihood of existing loan repayment

Community Impact

- Neighborhood Notification – N/A
- City Goals – N/A
- Sustainability Targets – N/A
- Comprehensive Plan – N/A
- Zoning Code – N/A

Supporting Information

Facing foreclosure actions on numerous properties on Franklin and West Broadway avenues, Great Neighborhoods! Development Corporation (“GNDC”) declared bankruptcy on June 21, 2010. The bankruptcy reorganization process is nearing completion and bankruptcy protections from foreclosure are ending.

The City has a 30 year financial relationship with GNDC, investing more than \$2 million into development projects on East Franklin and West Broadway. City investments take the form of loans secured by mortgages, unsecured performance-based loans and grants. Generally, \$895,000 of the \$2 million is in secured loans and the remainder is either grants or unsecured performance-based loans. The City has an opportunity to recover the secured debt and a portion of unsecured debt with GNDC. This report addresses the secured debt in the Franklin Circles Shopping Center (“Shopping Center”) and a portion of the unsecured debt. The City expects to recover the secured portion if it exercises its mortgage foreclosure redemption rights for debt secured by the Shopping Center and completes a City Council-approved loan assignment for a loan supporting the Franklin Bakery (“Bakery”). Recovering the Shopping Center debt will require the use of up to approximately \$2.5 million in cash on an interim basis. Staff has determined that pursuing the formal redemption process is the only method to recover City debt secured by the Shopping Center.

The City can recover a portion of its unsecured debt if it consents to GNDC’s Plan for Reorganization filed on June 17, 2011 with the United States Bankruptcy Court (“Plan”). The Plan submitted for approval does not include GNDC retaining any property, but addresses an award by the United States Treasury of Federal New Markets Tax Credits (“NMTC”). NMTC is a financing tool for commercial real estate development in challenged markets that creates fee revenue when deployed. Under the terms of the Plan, the City is eligible to receive a proportional share of all unsecured debt claims from excess fee revenue generated in a NMTC allocation sale. The City will not recover the entire unsecured debt with GNDC, but it will recover more of the unsecured debt than if the court were to dismiss the bankruptcy case. The likelihood of the court to dismiss the bankruptcy case is higher if the City or other creditors were to reject the reorganization plan.

Approving the staff recommendation will empower the City Finance Officer to act on the City’s behalf in the redemption process, deciding which actions to take and from which accounts to draw needed funds. It also empowers the Finance Officer to consent to the Plan. Finance staff has identified sources that can be used as interim cash. The funds used in the redemption process will be repaid to original accounts.

Recovering the debt secured by the Shopping Center through the redemption process is not without risk. At the end of the process, the City will either recover all of its outstanding debt, a portion of its outstanding debt, or it will own the Shopping Center. If the result is Shopping Center ownership, the City would then have to sell the property to recover the interim cash and the secured debt. The Finance Officer will weigh the risks and act appropriately based on information staff will continue to gather prior to the beginning of the redemption process in September. This information will include an updated appraisal of the property and an assessment of market conditions.

Mortgage Foreclosure Redemption Process

City has approximately \$620,000 in outstanding secured debt in the Shopping Center. To recover this debt, the City would participate in a mortgage foreclosure redemption process where subordinate lenders “buy out” senior lenders. In the Shopping Center the City debt is in the 2nd, 4th and 5th positions (see debt table below). Franklin National Bank owns the 1st, 3rd and 6th position debts in the property. With the 2nd position debt the City would pay off Franklin National Bank’s 1st mortgage plus fees and interest (see process table below). The City would

then “own” the property. Franklin National Bank would have the next opportunity to buy out the City for the cost of the 1st mortgage payoff plus the 2nd mortgage plus fees and interest. Franklin National Bank would “own” the property at this point. These opportunities continue down the list of debt until all lien holders either choose to redeem or not to redeem. Each lender has a week to trigger the next redemption buy out.

For the City to participate in the redemption process it would need approximately \$2.5 million on an expected temporary basis to complete the transactions. Because there are additional creditors with liens on the property, Franklin Bank and the City are not able to enter into a negotiated alternative to the redemption process to recover debt. In addition to the possibility of recovering the secured debt, the City could recover fees and interest related to its debt recovery efforts including external attorney’s fees, appraisal costs and other applicable miscellaneous costs.

The pursuit of these debts is not without risk. These activities require the use of City cash resources with the expectation that Franklin National Bank and/or other subordinate lenders will redeem to recover these funds. If Franklin National Bank or the other lenders junior to the City’s position do not redeem, the City will own the Shopping Center. If the City owns the Shopping Center it will only recover secured debt and the interim cash when it can sell the Shopping Center at a price equal to or greater than the amount of the secured debt and interim cash.

The Finance Officer along with staff from CPED and the City Attorney’s Office will manage this risk with analysis of the value of the Shopping Center. Franklin National Bank filed an appraisal during the bankruptcy proceedings valuing the Shopping Center at \$3.85 million. Staff has ordered an updated appraisal due in early August. It is likely that creditors will redeem to the appraised value less a discount for expenses and time. The City must undertake two redemption actions to collect all debt in the property. The risk increases from the first action to the second and the City does not have to take both actions. The Finance Officer per this City Council authorization will determine how much to redeem, given the appraised value discounted for expenses.

Franklin Circles Shopping Center Debt (1301-1311 East Franklin Avenue)

Mortgage position	Lender	Source	Estimated balance w/o fees & interest
1st	Franklin Bank		\$1,300,000
2nd	CITY	UDAG Loan (1981, restructured in 2007)	\$405,000
3rd	Franklin Bank*		\$997,000
4th	CITY	CDBG loan (1994)	\$195,000
5th	CITY	Levy Loan (2003)	\$20,000
6th	Franklin Bank*		\$890,000
7th	Nonprofit’s Asst. Fund		\$327,000
8th	Larry Hopfenspirger		\$329,000

*718 West Broadway and 2214-2224 Bloomington avenues also secure this loan

Expected Redemption Schedule for Franklin Circles Shopping Center
(if redemption to 6th mortgage position occurs)

Steps	Process to Redeem	Description	Deadline
1	Sheriff's Sale	Sheriff Foreclosure Sale, Franklin Bank purchases, GNDC has 6 months to redeem	4/4/2011
2	City Approvals	Obtain approval to proceed (City Council)	7/22/2011
3	Finance Officer Approval	Finance officer decides to proceed with redemption based on appraisal and other market factors	8/15/2011
4	File intent to redeem	File Notices of Intent to Redeem and evidence of claim	8/20/2011
5	Show proof of claims	Record certified copies of documents evidencing each lien and the City's right to redeem	8/20/2011
6	City deadline to redeem 1st mortgage	Pay to the certificate holder (Franklin Bank) the redemption amount (est. \$1.3 million + interest and fees)	10/5/2011
7	Franklin deadline to redeem 2 nd mortgage	Pay to the certificate holder (City) the redemption amount (total payment = City payment in Step 5 + est. \$405,000 + interest and fees)	10/12/2011
8	City deadline to redeem 1st, 2nd, & 3rd mortgages	Pay to the certificate holder (Franklin Bank) the redemption amount (total payment = Franklin payment in step 6 + \$997,000)	10/19/2011
9	Franklin deadline to redeem 1st - 5th mortgages	Pay to the certificate holder (City) the redemption amount (total payment = City payment in step 7 + est. \$215,000 + interest)	10/26/2011
10	City's debts recovered	Repay interim City fund investment if Franklin redeems	10/26/2011

Previous actions to recover secured debt

The City Council approved the assignment from GNDC to Franklin Bakery, LLC of secured debt in the Bakery on May 27, 2011. This action recovers \$273,000 outstanding secured debt from a 2004 CDBG sourced loan in the Bakery through regular debt service payment. Under this agreement, GNDC deeded the property to the Franklin Bakery, LLC and the Bakery assumed the outstanding debt.

Partial Unsecured Debt Recovery through Plan consent

The remaining GNDC debt (see table on next page) is subject to GNDC's reorganization plan. Per this requested authorization, the Finance Officer would consent to the Plan at the plan confirmation hearing (expected mid-summer). Consenting increases the likelihood that the court will confirm the Plan and that the City will recoup a portion of its unsecured debt to GNDC. Based on the Plan, GNDC proposes to pay the City a portion of the outstanding unsecured debt from NMTC fee revenue. The plan proposes that all creditors with unsecured claims will receive a proportional share (based on creditor debt compared to overall debt) of origination fees from the deal. The plan estimates a \$150k disbursement in 2011 and a \$200k disbursement in 2018 to all creditors. The City would receive a yet-to-be-determined amount of that disbursement, but less than the total outstanding unsecured debt with GNDC.

Unsecured Debt with GNDC

Property	Source	Est. Bal
Ancient Traders Market	NRP Forgivable Loan (1998)	\$298,000
Bakery	Empowerment Zone Loan (2002)	\$ 43,383
Broadway Plaza	Great Streets Recoverable Grant (2008)	\$432,000
Broadway Plaza	Empowerment Zone Loan (2008)	\$136,000
Broadway Plaza	Empowerment Zone Grant (2008)	\$300,000

**RESOLUTION
OF THE
CITY OF MINNEAPOLIS**

By Goodman

Approving an interfund loan for Redemption of Franklin Circles Shopping Center.

Whereas, the City of Minneapolis ("City") is interested in participating in debt recovery actions related to the Franklin Circles Shopping Center at 1301-1311 East Franklin Avenue in Minneapolis (the "Redemption Actions"); and

Whereas, the Redemption Actions are expected to be paid with private funds either through the Redemption Actions themselves or through the sale of the Franklin Circles Shopping Center; and

Whereas, the City is requesting a capital advance in the amount of up to \$2,500,000 from Common Project Reserve funds as an interim financing source to pay the Redemptions Actions costs (the "Interfund Loan"); and

Whereas, the Interfund Loan will be repaid from private funds; and

Whereas, it is deemed in the best interest of this community to approve the Interfund Loan to pay the initial costs of the Redemption Actions;

Now, Therefore, Be It Resolved by The City Council of The City of Minneapolis:

That pursuant to Minnesota Statutes, Section 469.178, Subd 7, the City Council approves the Interfund Loan to pay Redemption Actions costs subject to the following requirements:

- (a) The principal amount of the Interfund Loan is up to \$2,500,000, with the actual amount to be determined by the Finance Officer.
- (b) There will be no interest charged on the Interfund Loan.
- (c) No installment payments will be due on the Interfund Loan, but final payment in full is due upon receipt of revenue received through the Redemption Actions or the final disposition of the Franklin Circles Shopping Center.
- (d) Repayment of the Interfund Loan by the City will be made solely from private funds obtained through the Redemption Actions or through the sale of the Franklin Circles Shopping Center.
- (e) The full faith and credit of this City will not be pledged in any fashion as a source of repayment of the Interfund Loan.

